

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-13 AID-20 CEA-02 COME-00 EB-11

EA-11 FRB-02 NEA-10 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 STR-08 AGR-20 ABF-01 FS-01 DRC-01

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3915

C O N F I D E N T I A L L O N D O N 1 0 2 4 5

FOLLOWING TEL SENT ACTION BONN CANBERRA PARIS ROME
SINGAPORE TOKYO HONGKONG USMISSION OECD PARIS EC BRUSSELS
TREASURY DEPT WASHDC SEPT 6 RPTD TO YOU

C O N F I D E N T I A L L O N D O N 1 0 2 4 5

DEPARTMENT PASS FRB

E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: EXTENSION OF STERLING AGREEMENTS

1. UK TREASURY ADVISES US THAT IN ORDER TO HELP
STABILIZE SITUATION IN LONDON FOREIGN EXCHANGE
MARKET, U.K. HAS ACTED IN UNILATERAL FASHION TO
ACCELERATE PROPOSALS AND EXTEND GUARANTEES THAT OTHER-
WISE WOULD HAVE REQUIRED LENGTHY AND NUMEROUS BILATERAL
DISCUSSIONS.

2. U.K. ON UNILATERAL BASIS IS OFFERING TO EXTEND
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STERLING GUARANTEES TO ANY COUNTRIES WHICH HAVE ALREADY

ENTERED INTO THEM PROVIDED THEY ARE WILLING TO MAINTAIN EXISTING AGREED UPON MINIMUM STERLING PROPORTION (MSP) IN THEIR RESERVES.

3. RATE AT WHICH STERLING IS TO BE GUARANTEED IS \$2.4213, WHICH IS ROUGHLY AVERAGE RATE THIS WEEK IN LONDON, ON TUESDAY, WEDNESDAY, AND THURSDAY, SEPTEMBER 4, 5 AND 6. RATE AT WHICH GUARANTEE WOULD COME INTO EFFECT WOULD BE COMPUTED ON BASIS OF AVERAGE DOLLAR-STERLING RATE DURING THE NEXT SIX MONTHS. IF THE SIX MONTH AVERAGE RATE IS LOWER THAN \$2.4213, U.K. WILL MAKE UP THE DIFFERENCE.

4. TREASURY OFFICIALS INVOLVED SAY THAT DECISION TO GO AHEAD ON THIS BASIS, INCLUDING A FORMAL ANNOUNCEMENT TO PRESS, WAS MADE IN SOMETHING OF A CRISIS ATMOSPHERE. TEXT OF U.K. PROPOSAL WILL BE ON PRESS TICKERS BEFORE IT FORMALLY REACHES THE FINANCE MINISTERS AND GOVERNMENTS CONCERNED. MARKET PRESSURE FORCED THE U.K. TO MOVE AT LEAST FIVE DAYS BEFORE CHANCELLOR WOULD OTHERWISE HAVE CONTACTED STERLING HOLDERS. U.K. EXPECTS THERE WILL BE SOME COMPLAINTS ABOUT MANNER IN WHICH DECISION WAS MADE, BUT FOR THE MOMENT IMMEDIATE IMPACT HAS BEEN FAVORABLE ON THE EXCHANGE MARKET. CONTINUED DISCUSSION EXPECTED AT COMMONWEALTH FINANCE MINISTERS MEETING AT DAR ES SALAAM PRIOR TO IMF-IBRD MEETING.

SOHM

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Message Attributes

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